Before the
Federal Communications Commission
Washington, D. C. 20554

In the Matter of	)	
	)	
Federal-State Joint Conference On Accounting Issues	))	WC Docket No. 02-269
	)	
2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase II	)))))	CC Docket No. 00-199
	)	
Jurisdictional Separations Reform and Referral to the Federal-State Joint Board	))	CC Docket No. 80-286
	)	
Local Competition and Broadband Reporting	)	CC Docket 99-301

COMMENTS OF BELLSOUTH

BELLSOUTH CORPORATION

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COMMENTS OF BELLSOUTH

I. Introduction and Summary

BellSouth Corporation, for itself and its wholly owned companies (collectively "BellSouth"), submits the following comments in response to the *Notice of Proposed Rulemaking* in the above referenced proceeding.[1]

The *NPRM* seeks comment on the recommendations of the Federal-State Joint Conference on Accounting Issues ("Joint Conference").[2] The stated objective of the Joint Conference was to improve the collection of adequate, truthful, and thorough accounting data for

1 *Federal-State Joint Conference on Accounting Issues, et.al.,* WC Docket No. 02-269, *et al., Notice of Proposed Rulemaking*, FCC 03-326, (rel. Dec. 23, 2003) ("*NPRM*").

2 Letter from Federal-State Joint Conference on Accounting Issues to Marlene H. Dortch, Secretary, Federal Communications Commission (Oct. 9, 2003) ("*Joint Conference Report*").

regulatory purposes."[3] Accordingly, any of the Joint Conference Recommendations that the Commission considers adopting, regardless of whether it is the reinstatement of old rules or the creation of new rules, must be evaluated in light of the purpose served by the recommended regulation. If the purpose for the regulation no longer exists, then the regulation should not be reinstated nor should any new rules be established to perpetuate the outdated purpose.

In evaluating the purpose behind the regulations, it is important for the Commission to consider changes that have occurred within the industry that have drastically altered the necessity of many of the accounting rules. One of the most significant changes is the movement from rate-of-return regulation to incentive, or price cap, regulation. The very purpose of price cap regulation was to incent carriers to create efficiencies in their operations and to develop new services that customers want. Ratepayers are protected in this environment by maximum caps on prices that carriers may not exceed. Because "price cap regulation severs the direct link between regulated costs and prices," regulators focus on prices charged the consumer leaving the companies to manage their own costs.[4] The need for the Commission to use detailed accounting rules to micromanage carriers under price cap regulation has all but disappeared. Consequently,

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3 *Federal-State Joint Conference On Accounting Issues*, WC Docket No. 02-269, *Order*, 17 FCC Rcd 17025, 17026, ¶ 4 (2002) ("*Convening Order*").

4 *See Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier I Local Exchange Company Safeguards*, CC Docket No. 90-623, *Report and Order*, 6 FCC Rcd 7571, 7596, ¶ 55 (1991), *California v. FCC,* 39 F.3d 919 (9th Cir. 1994), *cert denied*, 514 U.S. 1050 (1995); *see also California v. FCC*, 39 F.3d at 926-27; *United States v. Western Elec. Co.*, 993 F.2d 1572, 1580 (D.C. Circuit), *cert denied*, 510 U.S. 984 (1993) ("[price cap regulation] reduces any BOC's ability to shift costs from unregulated to regulated activities, because the increase in costs for the regulated activity does not automatically cause an increase in the legal rate ceiling.") Services subject to price regulation (rather than cost regulation) are assigned to baskets that are subject to a price cap.

carriers regulated by price cap regulation[5] should be considered a separate carrier class when evaluating the recommendations in the *Joint Conference Report.*[6]

There are other industry changes that have occurred that impact the purpose behind many of the regulations recommended by the Joint Conference. The passage of the Telecommunications Act of 1996 was intended to have a deregulatory effect and even obligated the Commission to review its rules every two years with the purpose of eliminating those that are no longer necessary. Additionally, the very makeup of the industry has changed considerably. Not only is there competition, but also digital technologies are changing the way telecommunications services are delivered, and the current and proposed regulatory requirements are based on technologies that are rapidly being replaced. For example, Voice Over Internet Protocol ("VOIP") is considered a significant new technology that will affect the Telecommunications industry.[7] These changes call into question the need for any of the recommendations suggested by the Joint Conference.

This is especially true considering that the recommendations are essentially targeted for the four regional Bell operating companies ("RBOCs") and they ignore the remainder of the providers of telecommunications and information services. Selective regulation – accounting rules that affect just the four RBOCs – will not provide "thorough" industry information, thus diminishing the very objective of the Joint Conference. Moreover, it brushes aside the Act's

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5 BellSouth operates under price-cap regulation at the federal level and in all nine of its in-region states. Therefore, the direct link between costs and rates has been severed for BellSouth's services in all of its operating jurisdictions.

6 47 U.S.C. § 220(h) provides the Commission the authority to "prescribe different requirements under this section for different classes of carriers."

7 *See* Shawn Young, *AT&T to Launch Internet-Based Telephone Service*, Wall Street Journal, Dec. 11, 2003 at B6. *See also* Statement of Commission Jonathan S. Adelstein, Voice Over IP Forum, Dec. 1, 2003 ("VOIP technology offers a huge promise for revolutionizing our nation's telecommunications structure.")

explicit deregulatory goals. Indeed, RBOCs are no more able to bear additional burdens than are other competitors in this challenging marketplace, regardless of whether those competitors are competitive local exchange carrier ("CLECs"), interexchange carriers ("IXCs"), or cable or broadband operators. Consumers do not benefit, and it is not in the public interest, when an RBOC's ability to compete in markets, especially in markets for advanced services, continues to be constrained by asymmetrical regulation. The local service market is under increased competition from both new entrants and new technologies. Yet, incumbent local exchange carriers ("ILECs") are forced to bear the expense of complying with dual accounting requirements – SEC and FCC – while their competitors answer only to the SEC. There is no need for telecommunications regulatory agencies, state or federal, to duplicate SEC efforts. BellSouth does not advocate any form of the continued or increased regulation; however, if the Commission believes that there is a federal need for certain regulation that is in the public interest, such regulation should apply to all providers of telecommunications services.

It is not in the public interest for the Commission to impose upon ILECs in *all* states an account or reporting requirement that an individual state might want to impose. Nor is it in the public interest for the Commission's rules to be modified to create federal rules for state regulators seeking to obtain information that state statutes no longer require.

Finally, the Commission should further delay implementation of previously delayed items until January 1, 2005.[8] This would allow the Commission sufficient time to consider additional comments provided in this *NPRM*.

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[8] *NPRM*, ¶ 8.

II. The Commission Must Establish Guiding Principles for Assessing Joint Conference Recommendations

The Commission should create a framework of guiding principles to use in determining whether to accept or reject the recommendations in the Joint Conference's Report. This framework of guiding principles will provide direction for evaluating the recommendations and will help the Commission remain focused on providing consistent and well-reasoned decisions. BellSouth believes the following guiding principles will provide the Commission a sound basis for evaluating the recommendations in the *Joint Conference Report.*

A. The Commission Should Treat Rate-of-Return Carriers and Price Cap Carriers as Separate Carrier Classes with Different Regulatory Accounting Requirements.

When the Commission first established its Chart of Accounts, regulated and nonregulated cost allocation rules, affiliate transaction rules, and accounting reporting requirements, these rules applied to all local exchange carriers, and all local exchange carriers were subject to federal rate-of-return regulation. Since that time, the telecommunication industry and communications technology has evolved, and ILECs are not the only providers of local exchange service. Competitors such as IXCs, CLECs, and cable operators are free from Commission regulatory accounting requirements.

Pricing methodology and cost determination also have changed. RBOC prices are no longer rate-of-return regulated by the Commission, and all BellSouth states are under price regulation.[9] ILEC unbundled network element ("UNE") rates[10] and the universal service fund

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9 As competition increases, some states either have considered or are considering deregulation or de-tariffing of traditionally regulated services. For example, North Carolina Senate Bill 814, passed in May of 2003, found that toll and operator services are sufficiently competitive and shall no longer be regulated by the North Carolina Utilities Commission.

("USF") nonrural cost model[11] are based on forward-looking economic cost, not historical cost. Information from carriers that are no longer subjected to rate-of-return regulation should not be required simply because that same information might be needed from rate-of-return carriers.

The Commission should find that RBOCs be afforded the same regulatory accounting, audit, and reporting relief currently enjoyed by their mid-sized counterparts. At the very least, until the Commission is ready to provide *significant* regulatory accounting relief for carriers no longer on rate-of-return regulation, the regulatory accounting status quo should be maintained with no new requirements added.[12]

B. New Accounts Are Not Needed to Obtain Industry Information

The Commission cannot rely on prescribed accounts for industry data because the industry, as a whole, is not required to follow the Commission's Chart of Accounts. The requirements set forth in the Uniform System of Accounts in Part 32 only apply to ILECs.[13]

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10 *See* 47 C.F.R. § 51.505. *See also Federal Communications Commission to Review Telephone Unbundled Network Element Pricing Rules*, FCC News Release at 1 (Sept. 10, 2003).

In this recently issued Notice the Commission is seeking comments on a proposal to make total long run incremental costs ("TELRIC") more closely resemble real-world attributes in the network. The Notice "reaffirms the FCC's 1996 decision to use a forward-looking cost methodology to determine UNE pricing."

11 *Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket Nos. 96-45 & 97-160, *Tenth Report and Order*, 14 FCC Rcd 20156, 20171, ¶ 29 (1999) ("existing LEC plant in a particular area may not reflect forward-looking technology or design choices . . . . Criterion three directs that 'costs must not be the embedded cost of the facilities, functions, or elements.' Rather, the model 'must be based upon an examination of the current cost of purchasing facilities and equipment.'").

12 Ironically, many of these mid-sized carriers for whom the Commission has already provided accounting relief are still subject to rate-of-return regulation. Thus the rates they charge their customers are still affected by how they account for and allocate costs, and yet the Commission has lifted many of the controls designed to prevent misallocation. If the controls can be reduced for carriers for whom there is arguably still a need, then certainly it is time to remove them for carriers under price caps.

13 47 C.F.R. § 32.11(a).

The new accounts the Joint Conference has recommended (Universal Service, Interconnection, etc.) are proposed only for the four RBOCs,[14] yet *all* telecommunications carriers make contributions to universal service and *all* ILECs are required to provide for interconnection. Adding these new accounts to ARMIS reports would not provide the Commission with industry information. If the Commission determines a federal need for additional industry information that is necessary to monitor competition, universal service, or interconnection, that need should be addressed through a reporting process that includes *all* carriers. New accounts or account changes should not be required for any ILEC, let alone only the four RBOCs.

In fact, the Commission already collects industry data. Universal service reporting includes not just ILECs, but CLECs, cellular providers, personal communications service providers, IXCs, local resellers, operator services providers, paging and messaging providers, payphone service providers, toll resellers, satellite communications providers, etc. Similarly, broadband and local competition reporting includes more than the RBOCs.

A comparison of existing universal service and broadband reporting to ARMIS reporting illustrates the disparity in the information obtained from the two systems. When the number of ILECs and CLECs reporting industry data through universal service and local competition and broadband reporting is compared to the number reporting in ARMIS, the lack of participants in the ARMIS reporting system is staggering.[15] Universal service information is collected from

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14 The *NPRM,* ¶ 11, explains that the new accounts proposed by the Joint Conference and those to be reinstated would apply only to Class A Accounts. Class A accounts are currently reported by BellSouth, SBC, Qwest and Verizon, and only these four RBOCs are required to report ARMIS 43-02.

15 All intrastate, interstate, and international providers of telecommunications services within the United States must file FCC Form 499-A. The 499-A administrator establishes a

1,337 ILEC reporting IDs and 807 CLEC reporting IDs; local competition and broadband reporting is collected from 329 ILEC reporting holding company IDs and 468 CLEC holding company IDs.[16] As a comparison, only 56 universal service filing IDs also filed the ARMIS 43-01 Annual Summary Report,[17] while only 4 local competition and broadband reporting holding company IDs also filed the ARMIS 43-07 Infrastructure Report.[18] Clearly, if the Commission's objective is to obtain thorough accounting data to monitor the industry for regulatory purposes, creating new accounts in part 32 will not achieve that goal. The Commission should either collect data from the entire industry, or recognize that its true objective is to force more regulation on a chosen few.

C. The Commission Should Not Establish Federal Rules Solely to Accommodate State Recommendations – There Also Must Be a Federal Need

State commissions can and do impose regulations on carriers that differ from federal requirements. For example, not all states follow the Commission's prescribed depreciation rates, impose the same type of pricing regulations, or impute directory revenue. Clearly, if a state commission has a need for information related to intrastate services, it can establish state rules to fulfill that need. Accordingly, the Commission should not impose a federal rule on ILECs just because a few state commissions want the rule to apply in their states. Likewise, the Commission should not modify its existing rules or create new federal rules to accommodate state regulators seeking to obtain information that state statues no longer require.

Reporting ID for each filer. Providers of broadband services, local telephone services, and mobile telephony services must file FCC Form 477.

16 *See* Trends in Telephone Service Report, August 2003, Tables 15.3, and Local Competition Report, June 2003, Table 12.

17 The IDs include Alltel, BellSouth, CenturyTel, Cincinnati, Citizen, Commonwealth, Qwest, Rochester, SBC, SureWest/Roseville, Sprint and Verizon.

18 The IDs include BellSouth, Qwest, SBC and Verizon.

The Commission has no obligation to add more accounts or more reporting requirements absent a federal need. The Commission was formed "[f]or the purpose of regulating interstate and foreign commerce in communication by wire and radio,"[19] not for the purpose of accommodating intrastate requirements. Indeed, it makes no sense for the Commission to even attempt to create rules for state purposes because each of the states' needs vary. That is why the states have authority to promulgate their own rules. The addition of new Part 32 accounts solely for the benefit of state requirements are unnecessary and should not be ordered.

D. The Commission Should Not Adopt A Joint Conference Recommendation Unless the Joint Conference has Provided a Specific Explanation for the Recommendation's Need

In order for the Commission to properly assess a Joint Conference Recommendation, and in order for parties to offer effective comments, the Joint Conference must offer the specific reasons why it made the recommendation. For many of the recommended new accounts, the Joint Conference offered no specific detail of the transactions that it intended to be recorded in these accounts.[20]

III. Joint Conference Recommendations – Chart of Account

The Joint Conference offered nothing new nor provided clarifying information in either the *NPRM* or the *Joint Conference Report* that should cause the Commission to alter its previous decision not to create new Class A accounts or reinstate those accounts the Commission has

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19 47 U.S.C. § 151.

20 For example, the Joint Conference recommends new universal service expense and revenue accounts but offers no explanation of what would be included in the new accounts. BellSouth is unclear whether the Joint Conference intends for a carrier to record the expense of contributions to the USFs or the support (revenue) received from these funds. BellSouth is likewise puzzled over why the Joint Conference would recommend new accounts to collect this information from only four RBOCs when the Commission already receives information relative to carrier contributions and carrier support payments. The specific transactions that the Joint Conference intends for the ILECs to record in the UNE, resale, reciprocal compensation, and interconnection arrangements accounts are also lacking.

eliminated.[21] The majority of the recommendations in the *Joint Conference Report* for the Chart of Accounts have been raised previously in the *Phase II Order* proceeding where these recommendations were the subject of comments and replies that were fully considered by the Commission and rejected.

While BellSouth is cognizant of the fact that the corporate world has experienced several failures, including at least one major telecommunications company, this cannot be a basis for continued or increased regulation under Part 32. Indeed, new Class A accounts are not needed and will do nothing to help assess the financial health of the industry. The Commission's regulatory accounting rules were designed to support rate-of-return regulation, not to provide for detection of fraud, for halting corporate governance abuses, or for oversight of public audit firms. Accordingly, merely adding new accounts will not change the regulatory accounting rules to protect against concerns this system was not designed to address. The SEC and Congress have already taken steps to address these concerns, including increasing reporting transparency.[22]

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21 *2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Amendments to the Uniform System of Accounts for Interconnection; Jurisdictional Separations Reform and Referral to the Federal-State Joint Board; Local Competition and Broadband Reporting*, CC Docket Nos. 00-199, 97-212, 80-286 & 99-301, *Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286; Further Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301, and 80-286*, 16 FCC Rcd 19911 (2001) ("*Phase II Order*"); *see, e.g.*, ¶¶ 60, 62, 63, 65, 66 – 74 (Commission concluded that optical switching, switching software, loop and interoffice transport, interconnection-related revenues and expenses, and universal service support accounts are not necessary.)

22 For example, the Sarbannes-Oxley Act: (a) established a Public Company Accounting Oversight Board (PCAOB); (b) requires that accounting firms that issue audit reports be registered and inspected; (c) provides for auditor independence, audit partner rotation and reports to audit committees; (d) requires CEO and CFO certification of financial reports; (e) requires attorneys to report evidence of material violations of security law; (f) enhanced financial report disclosures and required reporting of off balance sheet transactions. *See* 15 U.S.C. § 7201 *et seq.* Additionally, in January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of

The SEC, not the Commission, is the agency best positioned to provide protection against these concerns.

A. The Joint Conference Should Not Recommend Any Changes Reversing Regulatory Relief Provided by the *Phase II Order*

The Joint Conference makes several recommendations to reinstate accounts that the Commission eliminated or changed in the *Phase II Order*. Unless the *Joint Conference Report* articulated valid and necessary reasons why the Commission's rule revisions impede the Commission's ability to adequately and effectively protect consumers and carry out the Commission's regulatory responsibilities, the Commission should reject the recommendations and the provisions of the *Phase II Order* must stand. As discussed above, the Commission must adhere to its statutory mandate of the 1996 Act. The Commission clearly followed the standard of Section 11 of the 1996 Act when it granted the regulatory relief set forth in the *Phase II Order*. Any recommendation of the Joint Conference must likewise adhere to that same standard.

1. Directory Revenue – Account 5230

As Commissioner Copps indicated in his statement accompanying the *Phase II Order*, the Directory Revenue is used by "only a few states."[23] Because price cap regulation eliminated the direct link between consumer prices booked costs, directory revenue imputations are not relevant and therefore are not "controversial" as claimed by the Joint Conference. Account 5230 is one of the deferred items and is currently being reported; however, the Commission should

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ARB No. 51 ("FIN 46"). FIN 46 insures that all special purpose entities (SPEs) that benefit a corporation are either consolidated (if the corporation had a controlling interest) or disclosed (if the corporation benefited from the activities of the SPE).

[23] *Phase II Order*, 16 FCC Rcd at 20119.

assess whether or not continued reporting at the federal level is necessary. Rather than continue mandating this account, carriers can provide Directory Revenue directly to those limited states that require the information.

2. Services – Account 6620

The *Phase II Order* aggregated Account 6621, Call Completion Services Expense; Account 6622, Number Services Expense; and Account 6623, Customer Services Expense into a consolidated Account 6620 and further separated this consolidated account into wholesale and retail sub-accounts. BellSouth was one of the parties that joined in the *Joint PFR* asking the Commission to reconsider the creation of the wholesale and retail sub-accounts for Account 6620. BellSouth continues to support the elimination of the wholesale and retail sub-accounts for Account 6620 for the reasons discussed in the *Joint PFR*, specifically, "because they are not necessary in the public interest, conflict with existing Commission regulations, and are extremely burdensome to implement."[24] These reasons are set forth in detail in the *Joint PFR* and fully establish why the Commission should eliminate these sub-accounts.

A common theme expressed by many state PSCs, and the only reason cited by the Commission as justification in the *Phase II Order* for implementing sub-accounts for wholesale and retail services, is their necessity in assisting the PSCs in developing UNE rates.[25] This reason is not valid for requiring wholesale and retail sub-accounts for these services at the federal level.

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24 *See 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2,* Petition of BellSouth, SBC and Verizon for Reconsideration of Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286 at 1 (filed Mar. 8, 2002) ("*Joint PFR*").

25 *Phase II Order*, 16 FCC Rcd at 19938-39, ¶ 64.

The *Joint Conference Report*[26] proposes as an alternative to the *Phase II Order* finding that accounts 6621 and 6622 be consolidated into one account and to retain account 6623. Any wholesale and retail breakdown would be limited to Account 6623 and be reported as a percentage on ARMIS 43-02 on an individual state basis.[27] While it continues to believe that the Commission should eliminate any wholesale/retail split in the accounts, BellSouth supports retaining the three separate accounts as currently reported.

Although the recommendation in the *Joint Conference Report* is significantly less costly to implement than the requirement in the *Phase II Order*, and BellSouth applauds the Joint Conference for being open to alternative methods of obtaining information, the Commission must still assess whether or not the alternative proposal, which would be reported only by the four RBOCs, is necessary.[28] All RBOCs that offer UNEs provide much more detailed and more current cost support at the UNE proceedings, which are based on forward-looking costs, than will be provided in the wholesale accounts. Thus, there is no federal necessity for RBOC-only annual reporting of historical information.[29]

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26 *See Joint Conference Report* at 15.

27 BellSouth's regulated retail and wholesale percentages for use in UNE studies are computed at a company level, thus, reporting at state level on ARMIS 43-02 is not necessary.

28 There are considerable financial burdens associated with complying with the requirements as established in the *Phase II Order*, which the commission as deferred implementation. If the *Phase II Order* requirements stand as written BellSouth will incur either $3.5 million using a special study or $12.5 million to duplicate systems. (*See Joint PFR*). BellSouth suggested that instead of requiring wholesale and retail journalization of Account 6623 on a monthly basis, reporting a wholesale percentage in ARMIS would be less burdensome. *See* Comments of BellSouth to Joint Conference Request for Public Comment, WC Docket No. 02-269, at 11 (filed Jan. 31, 2003).

29 During its UNE proceedings, BellSouth provides to states analyses or studies identifying the resale/wholesale components of Account 6623.

3. Depreciation Expense Accounts

The *Joint Conference Report* recommends the reinstatement of depreciation and amortization expense accounts – account numbers 6561, 6562, 6563, 6564, and 6565 – rather than consolidating these accounts into 6560.[30] This item is one of the items whose implementation has been deferred.

The *Joint Conference Report* cited state ratemaking as the main reason these separate accounts are needed.[31] BellSouth, however, has no states that are subjected to rate-of-return regulation. Furthermore, the lives and rates used for calculating state depreciation differ from the lives and rates used for calculating Commission depreciation. The ARMIS depreciation amounts are not appropriate for use by the states because the amounts reported in ARMIS are calculated pursuant to Commission prescribed lives and are therefore different than depreciation expense on a state basis. Accordingly, the Commission should assess whether continued reporting, at the federal level, of data at the individual Depreciation account level is necessary.

B. There Is No Need for Any Accounts to be Added to the Part 32 Chart of Accounts

The *NPRM* proposes to accept the recommendation of the Joint Conference to add several new accounts to the Part 32 chart of accounts. These accounts were originally proposed by various state PSCs. The Commission should reject the Joint Conference's recommendations that these accounts be added for two reasons. First, the state PSCs have not identified what

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30 *Joint Conference Report* at 15-16.

31 The *Joint Conference Report* provides as an example, Account 6562, which it contends is "often very contentious in a state ratemaking proceeding." *Joint Conference Report* at 16. The total amount for this account for all RBOCs for the year 2000 totaled only $168,000, or .001 percent of depreciation expense. The expense was only $83,000 for the year 2001 and was zero for the year 2002. *See* ARMIS Report 43-03, Total Company Column for Account 6562, for the respective years.

information they desire to have included in these accounts. Depending on what the PSCs want included, establishing the accounts may be impossible or extremely costly, as well as time consuming to implement. Moreover, without identifying what would be included in the accounts, the state PSCs have not established a need for them. Second, without knowing what the state PSCs want recorded in the accounts, BellSouth is left to guess whether some or all of the detail may be identifiable in its books and records even though the information may not be contained in a specific Part 32 account. Surely the Commission cannot accept a recommendation to implement new accounts that require expensive programming changes to accounting systems when the reason for the accounts remains a mystery. Because the Joint Conference has not provided such specific information the Commission must reject these recommendations.

1. Interconnection Accounts

It is unclear specifically what information the Joint Conference recommendation is requesting. As BellSouth indicated in its January 2003 comments, resale revenue follows the service sold and cannot be easily redirected to just one account without major reprogramming as well as changes to the Part 36 separations rules and processes. If the Commission decides there is a federal need for more information from all carriers, it should look to specifically identify what is needed and request this information from all affected carriers without ordering burdensome and unnecessary account changes just for the RBOCs.[32]

The *Joint Conference Report* (at 19-21) indicates that ILEC reciprocal compensation payments made to others and sources of interconnection revenue need to be separately identified

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[32] The Commission is already collecting information on local competition its Trends in Telephone Service Report and the Local Competition Report. The information in these Commission reports is provided by more than just the four RBOCs who would be the only carriers impacted by this proposal.

and reported.[33] The Joint Conference apparently believes that if the interconnection revenues are minimal, this would indicate that the UNE rates are too high. Minimal interconnection revenues, however, could be a result of many factors, including that UNE rates themselves are minimal or that retail rates are too low. Information on competition is already available from other sources and it is unclear what a breakdown of interconnection revenue would accomplish since states set the interconnection rates and already know what their rates are.

2. Universal Service Accounts

The *Joint Conference Report* states that the Commission should establish new universal service accounts in order "to understand the federal USF programs and the effect these programs have on consumers."[34] It is unclear what about the federal USF programs needs to be understood and specifically what it is the Joint Conference anticipates being recorded in these accounts, especially since the accounts will only apply to the four RBOCs. It is even more unclear what the accounts will accomplish considering that it is more than just the four RBOCs that are affected by Universal Service.

Assessing the "effect these programs have on consumers" cannot be accomplished by looking only at RBOC booked dollars. The various universal service programs provide support, directly and/or indirectly, to widely varying groups of consumers from residential subscribers of basic telephone service in rural areas who receive indirect benefits in the form of subsidized rates to large urban schools districts that directly receive millions of dollars to fund high-speed networks. The RBOCs to which these new accounts would apply, are only four out of hundreds of companies that contribute to and receive reimbursement from the USF. It is inconceivable

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33 *Joint Conference Report* at 19-21.

34 *Id.* at 21.

that collecting this information from four companies would provide any information that would illuminate the "effect" of these programs on consumers.

The Federal-State Joint Board staff already monitors and reports information relative to support payments made to carriers and contributions carriers make to the funds.[35] Additionally, other entities, such as USAC, provide significant information regarding universal service.[36] If there is a federal need for a state-by-state breakdown of USF information, the Commission should first look to USAC. If USAC does not collect the information, then the Commission could collect this information from all USF participants without establishing new accounts for four RBOCs. [37]

C. The Joint Conference Has Not Demonstrated a Need for the Inclusion of Asset Accounts

While the Joint Conference did identify what should be included in various asset accounts that it recommended be created in the Part 32 chart of accounts, it failed to provide any support as to why these accounts are necessary. Just as with the discussion on reinstatement of the accounts eliminated by the *Phase II Order*, the Commission cannot create new regulation without a proper showing of why these proposed accounts are needed. Without empirical

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35 *See* 2002 Monitoring Report. Tables 1-1 through 1-57 reflect industry revenues and contributions and Tables 2-1 through 5-11 show support carriers receive.

36 USAC provides information on its website at www.universalservice.org/overview/filings. Additionally, there is state specific information in the Trends in Telephone Service Report, August 2003, Tables 19.2 through 19.4 and Tables 20.1 through 20.8.

37 For example, support received by carriers from the Universal Service Schools and Libraries fund and Rural Healthcare fund are repayments of discounts. Currently, the full (undiscounted) revenue is journalized to the appropriate revenue account. Many services qualify for discount and there are many revenue accounts that are impacted. Should the Commission create one new account for the support (discounted portion), the original nature of the revenue would be lost. The portion of the revenue that represents the discount cannot be easily redirected to just one account without major reprogramming as well as changes to the Part 36 separations rules and processes.

evidence supporting the Joint Conference's recommendations the Commission should summarily reject the addition of these new accounts in the Part 32 chart of accounts.

1. Optical Switching Accounts

The *Joint Conference Report* the addition of an optical switching account suggesting that it will provide data regarding the extent of deployment of new technology and that such technology categorization is important for UNE pricing.

BellSouth has no optical switches in its network because it currently has not found optical switching to be economically or technically viable in the near term.[38] Maintenance is expensive and the switching is inefficient for high volumes. The addition of any new plant account actually requires multiple accounts and field reporting codes – accounts and codes are needed for the corresponding depreciation reserve, depreciation expense, and maintenance expense – along with related documentation of field instructions and training of field personnel for time reporting and material reporting. Even if BellSouth has no optical switches and if the Commission orders this account, the system changes, documentation and training still will need to be implemented.

It is also unclear how a dollar amount can provide information on the extent of deployment of new technology. Not all carriers pay the same amount for the switches that they purchase and not all vendors charge the same price for similar equipment. For UNE proceedings, ILECs will need to and already do provide the forward-looking cost of whatever technology – optical or otherwise – is used in the proceeding. Thus, the inclusion of an optical switching account will not help in these proceedings.

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[38] Even the Commission recognized that "optical switching account is premature because the technology has not yet developed to the point where widespread deployment is imminent." *Phase II Order*, 16 FCC Rcd at 19937, ¶ 60.

2. Switching Software Account

For its recommendation regarding switching software, the *Joint Conference Report* points to AT&T comments requesting switching software account because ILECs have argued that new switching software has a significant impact on UNE switching costs.[39]

The Commission adopted Generally Accepted Accounting Principles for accounting for software.[40] Carriers are already required to maintain subsidiary records in Account 2690 for "general purpose computer software and for network software."[41] BellSouth currently maintains subsidiary records that uniquely identify switching software that is journalized in Account 2690. ILECs have and will continue to provide cost support during UNE proceedings. Mandating a new switching software account only for the four RBOCs is not necessary and is burdensome.[42]

39 *Joint Conference Report* at 18-19.

40 *See 1998 Biennial Regulatory Review -- Review of Accounting and Cost Allocation Requirements; United States Telephone Association Petition for Rulemaking; Implementation of the Telecommunications Act of 1996; Accounting Safeguards under the Telecommunications Act of 1996; Petition for Forbearance of the Independent Telephone & Telecommunications Alliance; Petition for Rulemaking to Amend Part 32 of the Commission's Rules, Uniform System of Accounts for Class A and Class B Telephone Companies, to Adopt the Accounting for Software Required by Statement of Position 98-1*, CC Docket Nos. 98-81 & 96-150; ASD File No. 98-64; AAD File No. 98-43; RM-9341, *Report and Order in CC Docket No. 98-81, Order on Reconsideration in CC Docket No. 96-150, Fourth Memorandum Opinion and Order in AAD File No. 98-43*, 14 FCC Rcd 11396 (1999).

41 47 C.F.R. § 32.2690(b).

42 A good example of the cost involved in such changes that the Commission sometimes dismisses as ministerial is the implementation of changes in account numbers resulting from the *Phase II Order*, BellSouth spent in excess of $1.2 million for programming changes, project management and documentation.

3. Loop and Transport Accounts

The *Joint Conference Report* points out that loop vs. transport information would be beneficial for ILECs to support claims that UNE rates do not cover accounting costs and would also be beneficial if separate wholesale/retail companies are created.[43]

The Part 32 Chart of Accounts is not the appropriate venue from which to obtain loop vs. transport investment. Part 32 records are kept by "units of property," not by a fraction of a unit of property.[44] A unit can be classified to only one account. A unit of property would be a certain length of cable. With current technology, both loop and interoffice facilities primarily ride the same cable and both types of traffic often ride together on a single fiber strand within the cable making it impossible to record loop and interoffice facilities in separate accounts as well as making it impossible for a technician to report time to either loop or interoffice facilities when working on the cable. To further complicate the process, the actual strand used can vary from day to day.

IV. Joint Conference Recommendations – Affiliate Transactions

One of the most outdated forms of regulation forced on RBOCs is the accounting gymnastics each must go through to record transactions between their affiliates. Revisiting the relief granted by the Commission in the *Phase II Order* under the current regulatory climate is totally inappropriate. As the Commission fully recognized when it established the affiliate transaction rules, the need for such complicated measures of determining transfer pricing between the regulated entity and its affiliates was the fact that the regulated entity was under

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43 *Joint Conference Report* at 19.

44 *See* 47 C.F.R. § 32.2000(e)(1)(i).

rate-of-return regulation.[45] Rate-of-return regulation used costs plus a percentage return on rate base assets to determine prices for services the regulated entity offered to consumers. The Commission therefore established the affiliate transaction rules as a safeguard "to prevent cost shifting to ratepayers by means of improper transfer pricing."[46] This stated purpose – a guard against the regulated entity cross-subsidizing the competitive entities – is the only reason to justify maintaining such a draconian method of dealings between sister corporations. This purpose, however, has long been eliminated.

In 1991, the Commission moved away from rate-of-return regulation and went to a price incentive form of regulation, referred to as price cap regulation.[47] Under price cap regulation a carrier's prices for services are no longer determined by a cost-plus system. Instead, the prices for a carrier's services are capped and the carrier is incented to cut costs through efficiencies in its operations. Indeed, under price cap regulation, carrier costs and rate base do not automatically impact interstate rates. Consequently, cost shifting from affiliate transfer pricing can no longer result in a corresponding increase in regulated interstate prices. Accordingly, the need for rules to guard against cross-subsidization has vanished.[48] Unfortunately, the Commission has seen fit to continue this vestige of rate-of-return regulation in spite of the current environment. Given that the affiliate transaction rules are no longer necessary and

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[45] Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions between Carriers and Their Nonregulated Affiliates, CC Docket No. 93-251, Notice of Proposed Rulemaking, 1993 FCC LEXIS 6523 at *7-*8, ¶ 8 (1993).

[46] *Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities; Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies to Provide for Nonregulated Activities and to Provide for Transactions Between Telephone Companies and their Affiliates*, CC Docket No. 86-111, *Report and Order,* 2 FCC Rcd 1298, 1335, ¶ 290 (1987) ("*Joint Cost Order*").

[47] Price cap regulation for the ILECs has been in place since January 1, 1991.

[48] In addition to moving to price cap regulation at the Commission for interstate services, BellSouth has also obtained price cap regulation in all nine of its in-region states.

should be completely eliminated, the Commission must not reverse the small relief given from the administrative burdens of these rules in the *Phase II Order*.

Significantly, some of the recommendations made by the Joint Conference do not address the associated concerns. For example, the higher/lower cost or market asymmetric comparison rules were intentionally designed to benefit the ILEC.[49] If state regulators are concerned that advantaging ILECs becomes a disadvantage to ILEC competitors; rather than impose the asymmetric comparison on transactions which have never been subject to these burdens,[50] the Commission should give consideration to the elimination of the asymmetrical requirement in its entirety.

Moreover, the Commission should not look to impose requirements created to institute complicated rate-of-return based procedures exclusively to do business with the ILEC upon nonregulated affiliates.[51] Nor should the Commission look to eliminate economies of scale and scope by forcing a market comparison for services provided solely within the corporate family, especially when there are no external market comparisons that can be made for many of these services.[52]

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49 The ILEC always records the higher value when selling to an affiliate and lower value when purchasing from an affiliate.

50 The Joint Conference recommendation to eliminate the centralized service exception and now require use of the asymmetric comparison rule.

51 The Joint Conference recommendation to eliminate floor and ceiling rules.

52 An analysis of BellSouth centralized services by Theodore Barry & Associates explains the difficulty and expense of obtaining EFMVstudies for these centralized services. This analysis was filed by BellSouth in both CC Docket 93-251 and CC Docket 96-150.

A. The Commission Should Maintain Its Decision to Eliminate the Requirement That ILECs Obtain a Fair Market Valuation for Assets with a Net Book Value of Less Than $500,000 That Are Transferred Between Affiliates

The recommendation in the *NPRM* does not properly represent the Joint Conference's actual recommendation for this item.[53] The *Joint Conference Report* "recommends that the FCC affirm its decision as announced in the *Phase II Order*."[54]

The *Phase II Order* eliminated the requirement for a comparison between net book cost and fair market value for the first $500,000 of asset transfers, yet the *NPRM* states that the Joint Conference recommended "[t]he Commission should maintain the requirement for a comparison between net book cost and fair market value for the first $500,000 of asset transfers." BellSouth assumes that the Commission intended to use the Joint Conference's actual recommendation in the *NPRM*. As such, BellSouth supports the actual Joint Conference Recommendation, which allows the requirements for services and assets to remain the same, eliminating the need for a FMV comparison for small value items. The Commission's basis for granting this relief was that "the administrative cost and effort of making such a determination would outweigh the regulatory benefits of a good faith determination of fair market value."[55] This basis remains just as true today, especially considering that the relief granted applies to a very small portion of an ILEC's transactions.[56]

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53 *NPRM* at 3.

54 *Joint Conference Report* at 21.

55 *Phase II Order*, 16 FCC Rcd at 19947, ¶ 87.

56 *See* Comments of Bellsouth to Joint Conference Request for Public Comment, WC Docket No. 02-269, at 13 (filed Jan. 31, 2004), where statistics are provided that show relief applies to *de minimis* transactions.

B. The Establishment of a Floor and Ceiling for Recording Transactions Between Affiliates Should Remain

The *Joint Conference Report* suggests that the Commission eliminate the floor and ceiling parameters for service transactions because these parameters "allow carriers greater flexibility in valuing these services" and provides the carrier "too much discretion in valuing of affiliate transactions by the ILEC."[57] The Joint Conference members expressed concern that the ILEC would be advantaged to the detriment of ILEC competitors because the ILEC could purchase assets or services below the affiliate's cost, which would subsequently cause ILEC prices charged to end users to decrease. The Joint Conference believes that the lowering of ILEC end user prices would benefit consumers, but would make it difficult for ILEC competitors to compete. Conversely the ILEC would be able to sell assets or services to the affiliate at inflated prices, again providing the ILEC an advantage over ILEC competitors. What the Joint Conference offers as a concern, in actuality, compensates for "faulty incentives" of traditional rate-of-return regulation.[58]

Any concern regarding a link between the value of affiliate transactions and BellSouth ILEC prices to end user is unfounded because BellSouth ILEC customer prices no longer change when BellSouth's booked costs change. BellSouth is not subject to rate-of-return regulation in either the federal or in any state jurisdiction. Consequently, whether the BellSouth ILEC records affiliate transactions at either too low for a purchase or too high for a sale is irrelevant.

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57 *Joint Conference Report* at 22-23.

58 *Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions between Carriers and Their Nonregulated Affiliates*, CC Docket No. 93-251, *Notice of Proposed Rulemaking*, 1993 LEXIS 6523 (1993). This notice identifies the faulty incentives as an ILEC paying excessive amounts for purchases from affiliates and undercharging for sales to affiliates. The floor/ceiling rule actually offers protection against these incentives – the floor protects from undercharging for sales and the ceiling protects from paying excessive amounts for purchases.

Additionally, prices ILECs charge for UNEs are not directly affected by affiliate transactions. UNE prices are set by state regulators on a forward-looking cost basis. Embedded booked costs are not used to establish UNE prices. Thus, the Commission should not be concerned about the ceiling /floor requirement in UNE proceedings. [59]

BellSouth's financial health is reflected in reports filed with SEC and is also unaffected. Intercompany transactions are eliminated for consolidated financial reporting "in preparation of consolidated statements, intercompany balances and transactions should be eliminated. . . . As consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise, such statements should not include gain or loss on transactions among the companies in a group."[60]

The floor and ceiling rule currently in place eliminates the requirement imposed upon the BellSouth non-regulated affiliates to institute and then maintain complicated rate-of-return based procedures exclusively to do business with the BellSouth ILEC, a burden that the affiliates of competing carriers do not have. If the Commission eliminated the floor/ceiling parameters, which it should not, the result would be a return to the waiver process set forth in AAD Nos. 92-22 through 92-35, released August 29, 1994. The filing of these waivers, which the Commission usually granted cause BellSouth, through filing the waiver, as well as Commission staff, in

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[59] Actual costs are sometimes used to develop a cost relationship or cost factor, but only when this is representative of the forward-looking cost of an efficient carrier.

[60] Accounting Research Bulletin 51: Consolidated Financial Statements, Consolidation Procedure Generally, ¶ 6. *See also* Statement of Financial Accounting Standards 94, Consolidation of All Majority-owned Subsidiaries—an amendment of ARB No. 51, with related amendments of APB Opinion No. 18 and ARB No. 43, Chapter 12 and FIN 46. FIN 46 guidance was established to address "Enron-type" situations.

writing an order, additional and unnecessary work. Therefore, the Commission should reject the Joint Conference's recommendation to eliminate this rule.[61]

C. The Reduction of the Volume of Sales of Services to Third Parties From 50% to 25% to Establish a Prevailing Price For Sales Between Affiliates Should Remain

The *Joint Conference Report* suggests the Commission use a 50% threshold for defining prevailing price, rather than the 25% threshold currently in use.[62] Fair Market Value has been defined as the "price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts."[63] It only takes one transaction to establish a fair market value. A 25% threshold is more than sufficient to insure that there is, in fact, a market price.

The rate-of-return concerns expressed by the Joint Conference members – offset higher-than desired earnings, subject to profit-sharing requirement – do not apply to price cap carriers such as BellSouth. The Commission should not modify affiliate transaction rules for price cap ILECs in response to concerns relative to rate-of-return and sharing companies. Nor should the Commission modify rules for any ILEC for these concerns since such issues are already addressed in the actual ratemaking proceedings of the affected ILECs.

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61 BellSouth had been granted four waivers filed from 1992 to 2001. The rule changed made a fifth waiver unnecessary.

62 *Joint Conference Report* at 23-24.

63 *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996; Policies and Rules Concerning Operator Service Access and Pay Telephone Compensation; Petition of the Public Telephone Council to Treat Bell Operating Company Payphones as Customer Premises Equipment; Petition of Oncor Communications Requesting Compensation for Competitive Payphone Premises Owners and Presubscribed Operator Services Providers; Petition of the California Payphone Association to Amend and Clarify Section 68.2(a) of the Commission's Rules; Amendment of Section 69.2(m) and (ee) of the Commission's Rules to Include Independent Public Payphones Within the "Public Telephone" Exemption from End User Common Line Access Charges,* CC Docket Nos. 96-128 & 91-35, *Report and Order*, 11 FCC Rcd 20541, 20624, ¶ 164 (1996).

D. The Centralized Services Affiliate Exemption Should Remain

The *Joint Conference Report* suggests that the Commission revisit its 1996 decision to allow ILECs' to record at fully distributed cost those services received from centralized services affiliates (affiliates that provide services solely to members of the corporate family).[64] The Joint Conference expressed concern that the regulated ILEC may find it advantageous to show artificially high costs and depressed earnings.[65] These concerns are a vestige of rate-of-return regulation and do not apply to price cap ILECs such as BellSouth. Commission rules state that UNE prices are not to be set using ILECs booked costs.[66]

Centralized services affiliates exist to create economies of scale and scope, not to increase ILEC costs. For many of the services offered by centralized services affiliates, there are no external sources for these services and no market comparables can be found. For example, corporations do not outsource the key decision-making in executive support, and there is no comparable estimated fair market value. Another example for BellSouth is its payroll processing performed by a service company. Even though BellSouth attempted to find a comparable service external to BellSouth, a comparable service could not be found because of the vast complexities and support processes needed to comply with labor union requirements unique to BellSouth as well as the regulatory accounting requirements of Part 32.

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64 *Joint Conference Report* at 25-26.

65 It is difficult to determine the actual Joint Conference concerns. Regarding the floor/ceiling rules, there is concern that ILECS will not pay enough – carriers need not pay anything for an asset or service received by an affiliate. Conversely, regarding the centralized services rule, the concern is that the ILECs might pay too much for those same services. It is unclear whether the Joint Conference concern is the ratepayer paying too little or the ratepayer paying too much when services are purchased from an ILEC affiliate.

66 47 C.F.R. § 51.505.

The administrative burden to implement fair market value comparisons is contrary to the cost-saving corporate objective behind the establishment of centralized services affiliates. Indeed, BellSouth's centralized services company for information technologies handles between 600 and 900 projects a year for the ILEC alone. The cost to obtain a good faith estimate of fair market value ("EFMV") for one project ranges from $150,000 to $200,000.

Obtaining EFMV is not the only cost to BellSouth. If the Commission were to require EFMV comparisons for centralized service companies, BellSouth's current systems for evaluating centralized services could not be used "as is." The current service affiliate systems are designed to calculate fully distributed costs by client. BellSouth estimates the cost to be approximately half a million dollars per each of its nine affiliates (or $4.5 million) to design and implement the detailed requirements to track costs on a service-by-service basis to obtain the individual service cost needed for comparison to the EFMV. Not only is this burden unwarranted but also the result of the exercise would provide no benefit to BellSouth's customers. Certainly with the Joint Conference continuing to express concern over the ILEC's financial health, unnecessary costs with no benefits to be realized by the end user should be rejected outright.

E. Transactions Between Nonregulated Affiliates and ILEC Nonregulated Activities

The *Joint Conference Report* suggests that transactions between nonregulated affiliates and ILEC nonregulated activities continue to follow affiliate transaction rules.[67] The Joint Conference contended that reintegration of previously separated affiliates, such as long distance and advanced services affiliates, would distort overall financial results of regulated ILECs.

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67 *Joint Conference Report* at 26.

Concern about overall financial results of ILECss is misplaced. Overall financial results are assessed at the holding company level and consolidated financial reporting eliminates the impacts of affiliate transactions.

F. ILEC-to-ILEC Transfers

The Joint Conference recommendation suggest that the Commission clarify that ILEC to ILEC transfers of assets or provision of services within the same holding company be made at net book for assets and at fully distributed cost for services.[68] The Joint Conference asserted that cost shifting could occur between ILECs, which would impact wholesale and retail prices.

BellSouth only has one ILEC and as such has no ILEC-to-ILEC transfers. Even if BellSouth had more than one ILEC, a clarification for ILEC-to-ILEC transfers is unnecessary because BellSouth operates under price cap regulation in all nine states and at the Commission and because wholesale customer prices are forward-looking, not historical.

V. Reporting Requirements and Other Issues

A. Reporting Broadband Information on ARMIS 43-07

The Joint Conference recommended that the Commission continue to require ILECs reporting of broadband information on ARMIS 43-07, even though the Commission uses Form 477 to collect Broadband information from ILECs' as well as other providers of telecommunications service.[69]

ARMIS 43-07 is only filed by the four RBOCs (BellSouth, Qwest, SBC, Verizon). RBOCs are not the dominant providers of broadband services. The Commission should not

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68 *Id.* at 27.

69 *Id.* at 32-34.

require RBOCs to report broadband information on multiple reports when all other providers of broadband information, including other ILECs, only report broadband information on Form 477.

B. Applicability of Regulatory Accounting Rules to ILEC Successors and Assigns

The Joint Conference recommendation suggests the Commission apply regulatory accounting rules to ILEC successors and assigns.[70] Concern was expressed that ILECs would look to avoid regulatory obligations by transferring services to the successors or assigns.

The Commission has already elected not to apply regulatory accounting rules to CLECs, IXCs, cable companies, and other providers of telecommunications services. Successors or assigns of ILECs that are not dominant in the provision of their services should receive the same regulatory freedoms as their non-ILEC counterparts.

C. Corrections to ARMIS Reporting

The Commission should no longer look to add new or more detailed data to ARMIS because ARMIS no longer represents the industry. Should the Commission decide it is necessary to retain ARMIS reporting, however, rather than require refiling of corrections for all time periods, the Commission should only require corrections be made for the two data periods prior to the calendar year in which the correction was identified by the ARMIS reporter or communicated by the Commission staff to the ARMIS reporter.[71]

VI. Conclusion

BellSouth urges the Commission to recognize that the telecommunications industry has changed dramatically in the last ten years and that many of the accounting and reporting rules

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70 *Id.* at 34-36.

71 For example, if an error is identified/communicated June 2004, data years 2003 and 2002 would be "correctable."

and regulations implemented a decade ago for rate-of-return regulation are obsolete and serve no useful purpose today. BellSouth believes the accounting and reporting rules and regulations are one of the last vestiges of rate-of-return regulation and do not reflect the significant changes that have occurred and continue to occur in the telecommunications industry. In fact, while other requirements and processes are being streamlined and simplified, the accounting and reporting requirements have continued to become ever more burdensome. Under the 1996 Act, the Commission has an unambiguous statutory mandate to reverse this trend in this proceeding.

Thus, the Commission should implement only those recommendations that reverse this trend and follow Congress' mandate and eliminate regulation that is no longer in the public interest.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that I have this 30th day of January 2004 served the parties of record to this action with a copy of the foregoing **COMMENTS OF BELLSOUTH** via Electronic Mail to the following parties:

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